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**ARIZONA CORPORATION COMMISSION****Justin Olson**

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March 23, 2020

***Re: In the matter of possible modifications to the Arizona Corporation Commission's Energy Rules
(Docket No. RU-00000A-18-0284)***

Commissioners and Staff,

I am writing in response to the request for comments on the Commission's possible modifications to its energy rules. As I described at several of the Commission's meetings regarding this topic, it is my view that the Commission should replace the REST mandate with a requirement that our regulated utilities invest in the most cost-effective mix of energy generation methods.

From my perspective, the proposals to increase the REST and other energy rules do not address the primary concern of Arizonans which is *the affordability* of electricity. Arizonans rely on affordable energy to meet monthly budgets and to support a thriving business environment. In seeking to ensure affordable rates, our sources of generation should compete to meet our energy needs in the most cost-effective way.

The Arizona Constitution provides "the Corporation Commission shall have the full power to, and shall, prescribe . . . just and reasonable rates." Ariz. Const. art. 15, sec. 3. The setting of just and reasonable rates is the touchstone not only for evaluating rate cases, but also making policy decisions. Unfortunately, when the Commission initially established the REST, it ignored this touchstone principle that would have otherwise protected ratepayers.

As we know, the REST has had a detrimental impact on the affordability of our utility rates. For example, since 2007, APS ratepayers have paid an astonishing \$1.25 billion dollars through the RES surcharge because of the Commission's renewable energy mandate. The mandate drove up rates because it required utilities to invest in renewable energy at a time when the technology was not cost effective.

Since that time, the cost of renewable energy has fallen and is now the most cost-effective method of generating electricity while the sun is shining or the wind is blowing. But ratepayers will continue to pay a premium for these renewable energy contracts for years into the future due to the long-term nature of the power purchase agreements that the REST required the utilities to enter. If our utilities were to have acquired this same renewable energy today ratepayers would have paid a small fraction of the cost that they are currently required to pay.

Because renewable energy in many cases is now the most cost-effective method of generating electricity, requiring utilities to invest in the most cost-effective methods would lead to significant increases in renewable energy deployment. Even more importantly, a cost-effectiveness requirement will guarantee that this increased use of renewable energy does not further drive up costs to ratepayers in the manner that the existing REST has. This approach enables our utilities to manage peak demand in an affordable manner while remaining flexible enough to take advantage of the negatively priced solar energy often available in the spot market during the middle of the day.

In addition to enacting the policy described above, we should also reaffirm the principle that our Commission will determine whether utility investments are reasonable and prudent resulting in affordable and reliable energy services. If a utility builds conventional energy generation assets when a renewable energy resource would have been more cost effective, then the Commission should rely on this principle to eliminate from rates the increase that would have resulted from the more expensive generation. Appropriately applying this principle eliminates any incentive that a utility would otherwise have to invest in a generation method other than the most cost-effective one.

If, instead of a simple mandate to our utilities to invest in the most cost-effective mix of energy generation, the Commission desires to specify a percentage of the energy portfolio that must be renewable, I am prepared to support any percentage that can be demonstrated to be the most cost-effective for Arizona ratepayers. Such a mandate should be based on the best available information and should acknowledge that the Commission will update the percentage as new information affecting the forecasted cost of energy generation becomes available. Such a mandate would make clear that if a utility invests in a project that is not the most cost effective then they will only be entitled to recover the expenses that would have been spent if they had used the lowest-cost method.

Alternatively, if the new rules do not require the use of the most cost-effective energy generation method, the new rules should cap the funds that utilities can spend in excess of the lowest cost method. Ideally, all the renewable energy projects that the utilities invest in would be the most cost-effective method of energy generation. If that is the case, then there will be no dollars spent in excess of the lowest-cost alternative. Very likely, this will be the case with many projects because of today's low cost of wind and solar energy projects. If, however, the Commission desires to allow for a certain amount of flexibility to spend above the lowest-cost method of energy generation, then the Commission should predetermine what the allowable amount in excess will be.

For example, the Commission could authorize utilities to invest in renewable energy projects that are not the lowest-cost method of generating electricity provided that the collective amount that the projects exceed the lowest-cost method of generation is not more than \$10 million. By evaluating and setting a cap on the excess spending, ratepayers will have a clear understanding of the maximum impact that could result from the Commission's action.

Additionally, I support including in our final rules the requirement for our utilities to offer all-source RFPs with an independent monitor for the RFP process. To ensure the RFP process is fair for all parties involved and allows the most cost-effective energy source to be used, I would suggest strengthening the language in the proposed rules regarding an all-source RFP and independent monitor to ensure the RFP process is *truly* all-source and the independent monitor is *truly* independent.

I look forward to discussing these issues at a future open meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin Olson", written in a cursive style.

Commissioner Justin Olson